

March 4, 2005

SUBJECT: CBO March 2005 Baseline Projections for the Student Loan Programs.

Attached are twelve tables that detail the costs, loan volumes, and subsidy rates for both the guaranteed and direct student loan programs for the March 2005 CBO Baseline as well as the CBO estimates of the President's 2006 budget requests. Below each table is summarized:

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|-----------|--|
| Table 1. | Includes the cost projection for each budget account associated with the student loan programs--the numbers shown are those in the CBO computer runs for Function 500. |
| Table 2. | Includes the loan volume and subsidy rate projections for all guaranteed and direct student loans. |
| Table 3. | Includes the loan volume and subsidy rate projections for the guaranteed student loans. |
| Table 4. | Includes the loan volume and subsidy rate projection for the direct student loans. |
| Table 5. | Includes the detailed components of the federal student loan subsidy rates for fiscal year 2006. |
| Table 6. | Includes the estimates of consolidation loan volume implicit in the estimated subsidy costs of both guaranteed and direct student loans. |
| Table 7. | Includes the Section 458 expenditures under the capped entitlement for direct loan administrative expenses. |
| Table 8. | Includes the on-budget costs of the guaranty agency federal reserve fund and restricted account. |
| Table 9. | Includes the interest rate forecasts used in the projections of student loan costs. |
| Table 10. | Includes the forecast of borrower interest rates and lender yields using both the CBO baseline assumptions and the Monte Carlo simulation. |

Table 11. Includes CBO's estimates of the President's mandatory student loan proposals included in the fiscal year 2006 budget request.

Table 12. Includes a summary of the CBO estimates of the President's mandatory student aid proposals included in the fiscal year 2006 budget request.

For your information, below is a summary of the definitions of budget authority, program obligations, and outlays as they apply to the student loan program subsidy or "program" accounts:

subsidy budget authority Subsidy budget authority figures express what total subsidy costs would be if all the loans for which an application was received during a year were made. But all loans are seldom made--only about 90 percent. This is because prospective borrowers either do not show up for school or decide not to take the loan.

subsidy obligations Subsidy obligations are the costs associated with all loans for which there actually will be at least one cash disbursement [shown on the attached tables as Net Annual Loan Volume]. Typically, the subsidy obligation estimates are not included on budget tables.

subsidy outlays Subsidy outlays reflect the subsidy obligations adjusted for the timing of the loan dollar disbursements. Because of the multiple disbursement requirements and the timing of the academic school year calendars compared to the federal fiscal year, only about two-thirds of the dollars are disbursed to the borrowers during the first fiscal year. The remaining dollars are disbursed in the following year.

Table 1

Mar-05

CBO March 2005 BASELINE BUDGET ACCOUNT TOTALS: STUDENT LOAN PROGRAM BASELINE

		(by fiscal year, in mil. \$)										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Guaranteed Loan Program	BA	8,177	8,181	8,687	8,924	9,247	9,587	9,915	10,236	10,552	10,863	11,095
Program (Subsidy) Account	OP	1,498	1,639									
91-0231-01-502 BA01, BA03, BA04	OL	7,996	6,670	7,527	7,803	8,062	8,361	8,656	8,943	9,225	9,502	9,782
Guaranteed Loan Program	BA	0	0	0	0	0	0	0	0	0	0	0
Liquidating Account	OP	0	0									
91-0230-01-502 BA02	OL	-784	-713	-612	-523	-444	-377	-100	-50	-5	-5	-5
Student Aid Administration	BA	119	123	126	129	133	137	141	145	150	154	158
[discretionary]	OP	26	26									
91-0202-01-502 AA01, AA02	OL	119	122	125	128	132	136	140	144	149	153	157
Direct Loan Program	BA	380	-429	-703	-865	-979	-1,086	-1,196	-1,312	-1,436	-1,571	-1,596
Program (Subsidy) Account	OP	-222	-203									
91-0243-01-502 BA04, BA05, BA06, BA07	OL	541	-418	-553	-724	-840	-938	-1,036	-1,141	-1,252	-1,373	-1,504
Federal Student Loan	BA	41	56	10	-78	-23	-100	-123	-142	-164	-178	-184
Reserve Fund	OP	0	0									
91-4257-03-502 BD1	OL	41	56	10	-78	-23	-100	-123	-142	-164	-178	-184
Direct Loan Program	BA	866	904	943	983	1,023	1,064	1,106	1,150	1,197	1,246	1,297
Mandatory Administrative	OP	348	367									
91-0243-01-502 BA2	OL	844	888	926	965	1,005	1,045	1,086	1,130	1,176	1,223	1,274
TOTAL	BA	9,584	8,836	9,063	9,094	9,401	9,604	9,844	10,077	10,299	10,514	10,771
	OP	1,650	1,829									
	OL	8,758	6,604	7,422	7,571	7,892	8,127	8,624	8,884	9,128	9,322	9,520

Note: Fiscal year 2005 credit reestimates included in the above estimates:

Guaranteed Loan Program	BA	593
Program (Subsidy) Account	OP	0
91-0231-01-502	OL	593
Direct Loan Program	BA	1,012
Program (Subsidy) Account	OP	0
91-0243-01-502 BA4	OL	1,012

TABLE 2

Mar-05

TOTAL GUARANTEED AND DIRECT LOAN PROGRAMS, March 2005 Baseline

(by fiscal year)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TOTAL ALL NEW LOANS [New Guaranteed and Direct Loans] a/											
Net Annual Loan Volume (Mil \$)	52,106	58,465	63,967	68,718	72,861	76,374	79,808	83,308	86,936	90,704	94,659
Net Number of Loans (000)	12,551	13,633	14,498	15,203	15,769	16,174	16,536	16,887	17,244	17,609	17,950
Average Loan Amount	\$4,151	\$4,288	\$4,412	\$4,520	\$4,620	\$4,722	\$4,826	\$4,933	\$5,041	\$5,151	\$5,273
Subsidy Rate b/ c/	8.77%	10.71%	10.26%	9.77%	9.56%	9.41%	9.24%	9.06%	8.87%	8.66%	8.45%
SUBSIDIZED STUDENT LOANS [New Guaranteed and Direct Loans]											
Net Annual Loan Volume (Mil \$)	23,563	25,536	26,928	27,929	28,633	29,185	29,677	30,142	30,645	31,188	31,708
Net Number of Loans (000)	6,723	7,198	7,522	7,738	7,885	7,995	8,088	8,173	8,266	8,370	8,465
Average Loan Amount	\$3,505	\$3,548	\$3,580	\$3,609	\$3,632	\$3,650	\$3,669	\$3,688	\$3,707	\$3,726	\$3,746
Subsidy Rate b/ c/	17.16%	20.36%	20.65%	20.38%	20.38%	20.43%	20.48%	20.52%	20.54%	20.55%	20.56%
UNSUBSIDIZED STUDENT LOANS [New Guaranteed and Direct Loans]											
Net Annual Loan Volume (Mil \$)	21,293	24,006	26,559	29,072	31,311	32,954	34,439	35,858	37,208	38,483	39,750
Net Number of Loans (000)	5,019	5,509	5,960	6,392	6,759	6,997	7,208	7,411	7,610	7,804	7,976
Average Loan Amount	\$4,242	\$4,358	\$4,456	\$4,548	\$4,633	\$4,709	\$4,778	\$4,838	\$4,889	\$4,931	\$4,984
Subsidy Rate b/ c/	4.24%	5.66%	5.03%	4.77%	4.81%	4.89%	4.96%	4.99%	5.02%	5.03%	5.04%
PARENT LOANS [New Guaranteed and Direct Loans]											
Net Annual Loan Volume (Mil \$)	7,250	8,923	10,479	11,717	12,916	14,235	15,692	17,309	19,083	21,033	23,201
Net Number of Loans (000)	809	926	1,017	1,072	1,126	1,182	1,240	1,303	1,368	1,436	1,509
Average Loan Amount	\$8,967	\$9,634	\$10,309	\$10,927	\$11,474	\$12,048	\$12,651	\$13,284	\$13,949	\$14,646	\$15,379
Subsidy Rate b/ c/	-3.12%	-1.33%	-1.53%	-1.65%	-1.67%	-1.58%	-1.51%	-1.46%	-1.42%	-1.40%	-1.39%

a/ Totals exclude consolidation loans.

b/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 2005 federal cost associated with the \$52,106 million in new loan volume would be \$4,568 million or 8.77% of the new loan volume [$\$52,106 \times .0877 = \$4,568$]. Another way to look at the cost of the loan programs is that overall it will cost the federal government on average about 9 cents for each new dollar

c/ The subsidy rates were calculated using the CBO January 2005 interest rate forecast. These rates would be different if other forecasts are used.

TABLE 3

Mar-05

TOTAL GUARANTEED LOAN PROGRAMS, March 2005 Baseline

	(by fiscal year)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TOTAL ALL NEW LOANS [New Guaranteed Loans Only] a/											
Net Annual Loan Volume (Mil \$)	39,215	43,972	48,087	51,652	54,755	57,370	59,917	62,506	65,183	67,957	70,861
Net Number of Loans (000)	9,591	10,416	11,077	11,618	12,052	12,361	12,637	12,904	13,176	13,453	13,711
Average Loan Amount	\$4,089	\$4,222	\$4,341	\$4,446	\$4,543	\$4,641	\$4,741	\$4,844	\$4,947	\$5,051	\$5,168
Subsidy Rate b/ c/	12.65%	15.00%	14.83%	14.37%	14.21%	14.10%	13.98%	13.84%	13.68%	13.51%	13.33%
SUBSIDIZED STUDENT LOANS [New Guaranteed Loans Only]											
Net Annual Loan Volume (Mil \$)	17,673	19,152	20,196	20,947	21,475	21,889	22,258	22,606	22,983	23,391	23,781
Net Number of Loans (000)	5,110	5,471	5,717	5,881	5,992	6,076	6,147	6,211	6,282	6,361	6,434
Average Loan Amount	\$3,459	\$3,501	\$3,533	\$3,562	\$3,584	\$3,602	\$3,621	\$3,640	\$3,658	\$3,677	\$3,696
Subsidy Rate b/ c/	20.82%	24.47%	24.92%	24.64%	24.65%	24.73%	24.80%	24.85%	24.88%	24.89%	24.91%
UNSUBSIDIZED STUDENT LOANS [New Guaranteed Loans Only]											
Net Annual Loan Volume (Mil \$)	16,395	18,485	20,450	22,386	24,110	25,374	26,518	27,610	28,650	29,632	30,608
Net Number of Loans (000)	3,915	4,297	4,649	4,986	5,272	5,458	5,622	5,781	5,936	6,087	6,221
Average Loan Amount	\$4,188	\$4,302	\$4,399	\$4,490	\$4,573	\$4,649	\$4,717	\$4,776	\$4,827	\$4,868	\$4,920
Subsidy Rate b/ c/	7.99%	9.72%	9.36%	9.11%	9.18%	9.29%	9.37%	9.42%	9.45%	9.47%	9.48%
PARENT LOANS [New Guaranteed Loans Only]											
Net Annual Loan Volume (Mil \$)	5,147	6,335	7,440	8,319	9,170	10,107	11,141	12,289	13,549	14,934	16,473
Net Number of Loans (000)	566	648	712	751	788	827	868	912	958	1,005	1,056
Average Loan Amount	\$5,147	\$6,335	\$7,440	\$8,319	\$9,170	\$10,107	\$11,141	\$12,289	\$13,549	\$14,934	\$16,473
Subsidy Rate b/ c/	1.55%	3.83%	4.16%	4.16%	4.22%	4.35%	4.44%	4.51%	4.56%	4.59%	4.60%

a/ Totals exclude consolidation loans.

b/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 2004 federal cost associated with the \$39,215 million in new loan volume would be \$4,961 million or 12.65% of the new loan volume [$\$39,215 \times .1265 = \$4,961$]. Another way to look at the cost of the loan programs is that overall it will cost the federal government on average about 13 cents for each new

c/ The subsidy rates were calculated using the CBO January 2005 interest rate forecast. These rates would be different if other forecasts are used.

TABLE 4

Mar-05

TOTAL DIRECT LOAN PROGRAMS, March 2005 Baseline

	(by fiscal year)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TOTAL ALL NEW LOANS [New Direct Loans Only] a/											
Net Annual Loan Volume (Mil \$)	12,891	14,493	15,880	17,067	18,106	19,004	19,891	20,802	21,753	22,748	23,798
Net Number of Loans (000)	2,960	3,217	3,421	3,585	3,717	3,813	3,899	3,983	4,069	4,156	4,239
Average Loan Amount	\$4,354	\$4,505	\$4,641	\$4,760	\$4,871	\$4,984	\$5,102	\$5,223	\$5,347	\$5,473	\$5,614
Subsidy Rate b/ c/ d/	-3.05%	-2.32%	-3.57%	-4.16%	-4.50%	-4.77%	-5.04%	-5.30%	-5.55%	-5.82%	-6.09%
SUBSIDIZED STUDENT LOANS [New Direct Loans Only]											
Net Annual Loan Volume (Mil \$)	5,891	6,384	6,732	6,982	7,158	7,296	7,419	7,535	7,661	7,797	7,927
Net Number of Loans (000)	1,614	1,728	1,805	1,857	1,892	1,919	1,941	1,961	1,984	2,009	2,032
Average Loan Amount	\$3,651	\$3,695	\$3,729	\$3,760	\$3,783	\$3,802	\$3,822	\$3,842	\$3,862	\$3,882	\$3,902
Subsidy Rate b/ c/ d/	6.16%	8.02%	7.86%	7.61%	7.57%	7.53%	7.54%	7.54%	7.53%	7.52%	7.52%
UNSUBSIDIZED STUDENT LOANS [New Direct Loans Only]											
Net Annual Loan Volume (Mil \$)	4,897	5,521	6,109	6,687	7,202	7,579	7,921	8,247	8,558	8,851	9,143
Net Number of Loans (000)	1,104	1,212	1,311	1,406	1,487	1,539	1,586	1,630	1,674	1,717	1,755
Average Loan Amount	\$4,435	\$4,556	\$4,659	\$4,755	\$4,843	\$4,923	\$4,995	\$5,058	\$5,112	\$5,156	\$5,210
Subsidy Rate b/ c/ d/	-8.31%	-7.93%	-9.48%	-9.75%	-9.80%	-9.81%	-9.81%	-9.82%	-9.83%	-9.84%	-9.86%
PARENT LOANS [New Direct Loans Only]											
Net Annual Loan Volume (Mil \$)	2,102	2,588	3,039	3,398	3,746	4,128	4,551	5,020	5,534	6,100	6,728
Net Number of Loans (000)	243	278	305	322	338	354	372	391	410	431	453
Average Loan Amount	\$8,668	\$9,313	\$9,965	\$10,563	\$11,092	\$11,647	\$12,229	\$12,841	\$13,484	\$14,158	\$14,867
Subsidy Rate b/ c/ d/	-14.56%	-13.97%	-15.43%	-15.89%	-16.09%	-16.08%	-16.07%	-16.07%	-16.07%	-16.06%	-16.06%

a/ Totals exclude consolidation loans.

b/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 2005 federal cost associated with the \$12,891 million in new loan volume would be -\$394 million or -3.05% of the new loan volume [$\$12,891 \times .0305 = -\394]. Another way to look at the cost of the loan programs is that overall it will save the federal government on average about 3 cents for each new dollar loaned in 2005.

c/ The subsidy rates for direct loans DO NOT include most federal administrative cost associated with disbursing and collecting the loans. Those costs are included on a cash basis in another budget account.

d/ The subsidy rates were calculated using the CBO January 2005 interest rate forecast. These rates would be different if other forecasts are used.

TABLE 5

Mar-05

Detail of the Full Fiscal Year Values for the 2006 Federal Subsidy Rates for Both the Variable Rate Loans and the Fixed Rate Loans

[Note: the Federal Subsidy Rates are Shown in Percent for Each Dollar Loaned]

Guaranteed Subsidized Loans:**o When Borrower Interest Rate is Variable**

Fees	-3.54%
In-School Interest Costs	14.32%
1./ Special Allowance Payments	6.25%
Net Federal Claim Payments	2.48%
Other	2.79%
Total Subsidy Rate	22.30%

o When Borrower Interest Rate is Fixed

Fees	-3.54%
In-School Interest Costs	16.93%
1./ Special Allowance Payments	6.51%
Net Federal Claim Payments	2.49%
Other	3.53%
Total Subsidy Rate	25.92%

Guaranteed Unsubsidized Loans:**o When Borrower Interest Rate is Variable**

Fees	-3.55%
In-School Interest Costs	0.00%
1./ Special Allowance Payments	7.29%
Net Federal Claim Payments	2.62%
Other	2.53%
Total Subsidy Rate	8.89%

o When Borrower Interest Rate is Fixed

Fees	-3.55%
In-School Interest Costs	0.00%
1./ Special Allowance Payments	7.77%
Net Federal Claim Payments	2.68%
Other	3.37%
Total Subsidy Rate	10.28%

Guaranteed Parent Loans:**o When Borrower Interest Rate is Variable**

Fees	-3.68%
In-School Interest Costs	0.00%
1./ Special Allowance Payments	2.42%
Net Federal Claim Payments	3.09%
Other	0.86%
Total Subsidy Rate	2.69%

o When Borrower Interest Rate is Fixed

Fees	-3.67%
In-School Interest Costs	0.00%
1./ Special Allowance Payments	3.88%
Net Federal Claim Payments	3.13%
Other	1.25%
Total Subsidy Rate	4.59%

Direct Subsidized Loans:**o When Borrower Interest Rate is Variable**

Fees	-1.75%
Disbursement	98.80%
Principal Repaid	-59.60%
Interest Paid	-25.55%
Other	-2.95%
Total Subsidy Rate	8.96%

o When Borrower Interest Rate is Fixed

Fees	-1.75%
Disbursement	98.80%
Principal Repaid	-58.67%
Interest Paid	-28.13%
Other	-2.86%
Total Subsidy Rate	7.39%

Direct Unsubsidized Loans:**o When Borrower Interest Rate is Variable**

Fees	-1.75%
Disbursement	98.78%
Principal Repaid	-68.51%
Interest Paid	-30.65%
Other	-3.69%
Total Subsidy Rate	-5.81%

o When Borrower Interest Rate is Fixed

Fees	-1.75%
Disbursement	98.78%
Principal Repaid	-68.96%
Interest Paid	-34.47%
Other	-3.67%
Total Subsidy Rate	-10.06%

Direct Parent Loans:**o When Borrower Interest Rate is Variable**

Fees	-1.88%
Disbursement	99.88%
Principal Repaid	-70.01%
Interest Paid	-34.01%
Other	-6.16%
Total Subsidy Rate	-12.18%

o When Borrower Interest Rate is Fixed

Fees	-1.88%
Disbursement	99.88%
Principal Repaid	-70.07%
Interest Paid	-37.12%
Other	-5.98%
Total Subsidy Rate	-15.17%

1./ The loan consolidation fee is included with the special allowance payments because it offsets interest paid to lenders.

TABLE 6

Mar-05

CBO March 2005--ANNUAL NEW CONSOLIDATION LOAN VOLUME IMPLICIT IN THE BASELINE FORECAST *

	(by fiscal year)																	
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual	Actual	Actual	Actual	Actual	Actual	eliminary											
Guaranteed Loan Consolidation Volume	3,353	4,927	6,590	9,418	22,918	35,210	35,947	31,234	22,252	19,181	18,014	18,760	19,594	18,938	20,334	21,561	22,715	23,865
Direct Loan Consolidation Volume	2,429	7,974	5,419	7,774	8,910	6,676	7,782	9,179	7,825	7,438	7,608	7,709	8,237	8,805	9,354	9,892	10,434	10,999
Total Consolidation Volume	5,782	12,901	12,009	17,192	31,828	41,886	43,729	40,414	30,077	26,619	25,621	26,468	27,831	27,743	29,688	31,454	33,149	34,864

*. Note: Loan consolidation under Section 502(5)(C) of the Federal Credit Reform Act of 1990 is considered a repayment choice of a borrower in the calculation of the loan program subsidies rather than a newly disbursed loan at the time of the consolidation. Thus, the above volume levels for new annual consolidations are those implicit in the forecast of borrower repayment choices in the baseline subsidy estimates of the original loans.

TABLE 7

Mar-05

SECTION 458----Student Loan Administration Account, March 2005 Baseline 1/

		(in millions of dollars)										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Direct Loan and Guaranteed Loan	BA	586	602	618	636	654	674	693	713	734	756	778
Federal Administrative Costs 2/	OT	579	592	607	624	641	660	679	699	719	740	762
Guaranty Agency Payments 3/	BA	250	271	293	315	336	356	378	401	426	452	480
	OT	236	266	288	310	331	351	373	396	420	446	473
TOTAL	BA	836	873	912	951	990	1,030	1,071	1,114	1,160	1,208	1,258
	OT	815	858	895	933	972	1,011	1,052	1,094	1,139	1,186	1,235

1. Section 458 is an open-ended entitlement program.
2. The federal administrative costs are the 2004 costs adjusted for inflation.
3. The guaranty agency payments reflect the full cost of funding the guaranty agency account maintenance fee. Thus, no additional funds from the Federal Reserve Fund are needed to make these payments.

TABLE 8

Mar-05

FEDERAL RESERVE FUND and FEDERAL RESTRICTED ACCOUNT---March 2005 Baseline 1./

	(by federal fiscal year, in millions of dollars)													
	Actual 2002	Actual 2003	Preliminary 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund Reserve Balance (BOY)	-2,462	-1,169	-1,107	-1,040	-999	-943	-933	-1,010	-1,033	-1,133	-1,255	-1,397	-1,561	-1,739
Fund Income	-4,269	-4,354	-3,074	-4,489	-5,000	-5,531	-6,053	-6,406	-6,874	-7,278	-7,666	-8,059	-8,457	-8,861
Fund Expenses	<u>4,477</u>	<u>4,416</u>	<u>2,937</u>	<u>4,530</u>	<u>5,057</u>	<u>5,542</u>	<u>5,975</u>	<u>6,384</u>	<u>6,775</u>	<u>7,155</u>	<u>7,524</u>	<u>7,896</u>	<u>8,279</u>	<u>8,677</u>
Net Federal Outlays	208	62	-137	41	56	10	-78	-23	-100	-123	-142	-164	-178	-184
Fund Reserve Balance (EOY) 2./	-1,169	-1,107	-1,039	-999	-943	-933	-1,010	-1,033	-1,133	-1,255	-1,397	-1,561	-1,739	-1,923
<i>Required Reserve Fund Level</i>	-488	-546	-611	-681	-751	-822	-887	-951	-1,012	-1,074	-1,137	-1,201	-1,265	-1,171

- 1./ For the purposes of federal budgeting, fund income is shown as a negative outlay and fund expenses as a positive outlay. Thus, net outlays (net income) that are negative would indicate that the government's income is greater than its expenses and that the government's surplus is increased (or the deficit reduced.) On the other hand, net outlays (net income) that are positive indicate that the government's income is less than its expenses and that the government's surplus is decreased (or the deficit increased).
- 2./ The transfers to the general treasury of \$1,085 million in 2002 and \$205 million in 2004 "non-cash" transactions. The transactions have been expensed. The fund reserve balances EOY reflect the fact that these transactions have occurred.

TABLE 9

Mar-05

CBO March 2005 Baseline Forecast

HISTORICAL INTEREST RATES BY FISCAL YEAR

BER 91-Day Treasury Bill Rate: a/b/

1981	15.25%
1982	12.09%
1983	8.69%
1984	9.89%
1985	8.16%
1986	6.63%
1987	5.81%
1988	6.39%
1989	8.42%
1990	7.92%
1991	6.17%
1992	3.89%
1993	3.07%
1994	3.78%
1995	5.65%
1996	5.21%
1997	5.17%
1998	5.12%
1999	4.55%
2000	5.73%
2001	4.53%
2002	1.78%
2003	1.13%
2004	1.12%

BER 3-Month Commercial Paper Rate: a/b/

1981	15.00%
1982	12.80%
1983	8.87%
1984	10.12%
1985	8.39%
1986	7.08%
1987	6.37%
1988	7.32%
1989	9.07%
1990	8.26%
1991	6.61%
1992	4.08%
1993	3.31%
1994	4.00%
1995	5.98%
1996	5.50%
1997	5.59%
1998	5.66%
1999	5.15%
2000	6.37%
2001	5.04%
2002	1.88%
2003	1.25%
2004	1.26%

PROJECTIONS OF INTEREST RATES BY FISCAL YEAR

BER 91-Day Treasury Bill Rate: a/b/

2005	2.45%
2006	3.85%
2007	4.64%
2008+	4.72%

BER 3-Month Commercial Paper Rate: a/b/

2005	2.72%
2006	4.20%
2007	5.04%
2008+	5.13%

Discount Rate--10-Year Zero Coupon Bond c/

2008	5.50%
------	-------

a. Because the costs of the student loan programs are estimated on a net present value basis, the interest rate forecast for 2008+ is the rate which has the most impact on federal cost of loans disbursed over the forecast period.

b. BER stands for bond equivalency rate.

c. The cash flows of the student loan programs are discounted using a matrix of different zero coupon bonds. The rate shown here is the forecast for a 10-year zero coupon bond for fiscal year 2008. It is shown here for illustrative purposes.

TABLE 10

Mar-05

CBO March 2005 Baseline Forecast of Borrower Interest Rates and Lender Yields

VARIABLE RATE LOANS:

Using Baseline Forecast 2008+ a./

	BER 91-Day Treasury Bill		Borrower	BER 3-month Commercial		Lender	Lender Special
	<u>Rate</u>	<u>Add-on</u>	<u>Interest Rate</u>	<u>Paper Rate</u>	<u>Add-on</u>	<u>Yield Rate</u>	<u>Allowance</u>
Student In-School	4.72%	1.70%	6.42%	5.13%	1.74%	6.87%	0.45%
Student In-Repayment	4.72%	2.30%	7.02%	5.13%	2.34%	7.47%	0.45%
Parent	4.72%	3.10%	7.82%	5.13%	2.64%	7.77%	0.00%

Using Monte Carlo Simulation 2008+ a./

	Expected BER 91-Day Treasury Bill		Expected Borrower	Expected BER 3-month Commercial		Expected Lender	Expected Lender Special
	<u>Rate</u>	<u>Add-on</u>	<u>Interest Rate</u>	<u>Commercial</u>	<u>Add-on</u>	<u>Yield Rate</u>	<u>Allowance</u>
Student In-School	4.72%	1.70%	6.03%	5.13%	1.74%	6.87%	1.14%
Student In-Repayment	4.72%	2.30%	6.46%	5.13%	2.34%	7.47%	1.29%
Parent	4.72%	3.10%	7.24%	5.13%	2.64%	7.77%	0.58%

FIXED RATE LOANS:

Using Baseline Forecast 2008+ a./

	BER 91-Day Treasury Bill		Borrower	BER 3-month Commercial		Lender	Lender Special
	<u>Rate</u>	<u>Add-on</u>	<u>Interest Rate</u>	<u>Paper Rate</u>	<u>Add-on</u>	<u>Yield Rate</u>	<u>Allowance</u>
Student In-School	na	na	6.80%	5.13%	1.74%	6.87%	0.07%
Student In-Repayment	na	na	6.80%	5.13%	2.34%	7.47%	0.67%
Parent	na	na	7.90%	5.13%	2.64%	7.77%	0.00%

Using Monte Carlo Simulation 2008+ a./

	Expected BER 91-Day Treasury Bill		Expected Borrower	Expected BER 3-month Commercial		Expected Lender	Expected Lender Special
	<u>Rate</u>	<u>Add-on</u>	<u>Interest Rate</u>	<u>Commercial</u>	<u>Add-on</u>	<u>Yield Rate</u>	<u>Allowance</u>
Student In-School	na	na	6.80%	5.13%	1.74%	6.87%	1.19%
Student In-Repayment	na	na	6.80%	5.13%	2.34%	7.47%	1.52%
Parent	na	na	7.90%	5.13%	2.64%	7.77%	0.87%

a. Because the costs of the student loan programs are estimated on a net present value basis, the interest rate forecast shown for 2008+ is the rate that has the most impact on federal cost of loans disbursed over the forecast period.

TABLE 11

CBO's Estimate of the President's Fiscal Year 2006 Proposals for Student Loans

Mar-05

Proposed Changes Affecting Mandatory Spending Estimated Relative to the March 2005 Baseline

(by fiscal year, in millions of dollars, assumes enactment before October 2005)												2005-2010	2005-2015
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	Total
<i>NOTE: The Program Changes Detailed Below are EACH Estimated Separately From Current Law:</i>													
Mandate guaranty agencies charge a 1.0% insurance premium on new guaranteed loans. (effective July 2006)													
BA	---	-220	-330	-280	-305	-335	-365	-395	-430	-470	-500	-1,470	-3,630
OL	---	-220	-330	-280	-305	-335	-365	-395	-430	-470	-500	-1,470	-3,630
Charge lenders a 25 basis point fee on all outstanding non-consolidated guaranteed loans. (effective July 2006)													
BA	---	-295	-535	-565	-595	-620	-650	-680	-705	-740	-755	-2,610	-6,140
OL	---	-185	-405	-490	-515	-540	-565	-590	-620	-645	-675	-2,135	-5,230
Allow low-default schools to waive the 30-day delay on first disbursements to first-time, first-year undergraduate students. (effective July 2006)													
BA	---	*	*	*	*	*	*	3	3	3	3	*	12
OL	---	*	*	*	*	*	*	3	3	3	3	*	12
Eliminate the guaranteed 9.50% yield on loans made from the proceeds of tax-exempt bonds, except allow recycling of the bond proceeds. (effective January 2006)													
BA	-605	-195	-195	-200	-200	-200	-205	-210	-210	-215	-215	-1,595	-2,650
OL	-570	-135	-170	-175	-175	-175	-180	-185	-190	-190	-195	-1,400	-2,340
1/ Change the insurance on most guaranteed loans from 98% to 95% (97% for exceptional lenders) and change the reinsurance on those loans from 95% to 92%. (effective October 2006)													
BA	-300	---	-270	-285	-300	-315	-330	-345	-355	-370	-375	-1,470	-3,245
OL	-300	---	-160	-245	-265	-275	-285	-300	-310	-325	-340	-1,245	-2,805
Eliminate the 50% rule on distance education courses for qualifying to participate in student aid programs. (effective July 2006)													
BA	---	0	0	5	5	5	5	5	10	10	10	15	55
OL	---	0	0	5	5	5	5	5	5	10	10	15	50
Limit the prohibition for drug offenders to participate in student aid programs to those who had convictions while attending higher education. (effective July 2006)													
BA	---	5	5	10	10	10	10	10	10	10	10	40	90
OL	---	3	5	5	5	5	5	10	10	10	10	23	68
Extend the current variable borrower interest rates to all new loans after June 2006. (effective July 2006)													
BA	---	-475	-225	-10	70	85	100	115	125	145	145	-555	75
OL	---	-290	-260	-70	45	70	85	95	105	125	140	-505	45

CONTINUED

CBO's Estimate of the President's Fiscal Year 2006 Proposals for Student Loans

Mar-05

Proposed Changes Affecting Mandatory Spending Estimated Relative to the March 2005 Baseline

[illegible]

TABLE 11

CONTINUED

CBO's Estimate of the President's Fiscal Year 2006 Proposals for Student Loans

Mar-05

Proposed Changes Affecting Mandatory Spending Estimated Relative to the March 2005 Baseline

(by fiscal year, in millions of dollars, assumes enactment before October 2005)												2005-2010	2005-2015
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	Total
Require the income data on the student aid application be matched with income data from the IRS. (effective July 2006)													
BA	---	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*
OL	---	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*	_*
Net programmatic interactions among all program changes listed above.													
BA	-355	-70	-235	-550	-655	-685	-710	-738	-788	-813	-828	-2,550	-6,427
OL	-110	-206	-180	-405	-545	-590	-625	-648	-673	-723	-748	-2,036	-5,453
2/ TOTAL CHANGES--Including Programmatic Interactions													
BA	-3,790	-1,565	-1,095	-745	-660	-655	-675	-715	-760	-810	-830	-8,510	-12,300
O	-3,445	-1,285	-1,165	-775	-645	-625	-645	-675	-720	-775	-810	-7,940	-11,565

*. Insignificant federal budget impact.

1/ Note: Changes to federal reinsurance are considered interbudgetary transfers. Thus, no net budget effect is included in the cost estimates.

2/ Does NOT include any changes to student aid administration. Those changes were proposed as discretionary changes and, thus, are not included in the mandatory spending totals.

TABLE 12

Mar-05

**President's Fiscal Year 2006 Proposed Changes Affecting Mandatory Federal Higher Education Spending
Estimated Relative to the March 2005 Baseline**

(by fiscal year, in millions of dollars, assumes enactment before October 2004)												2005-2010	2005-2015
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total	Total
Student Loan Proposals:													
BA	-3,790	-1,565	-1,095	-745	-660	-655	-675	-715	-760	-810	-830	-8,510	-12,300
OL	-3,445	-1,285	-1,165	-775	-645	-625	-645	-675	-720	-775	-810	-7,940	-11,565
Perkins Loan Proposal:													
BA	---	-580	-642	-675	-735	-697	-651	-239	122	211	430	-3,329	-3,456
OL	---	-580	-642	-675	-735	-697	-651	-239	122	211	430	-3,329	-3,456
Pell Grant Proposal:													
BA	---	4,722	825	1,249	1,645	2,047	2,028	2,069	2,063	2,053	2,047	10,488	20,748
OL	---	101	509	918	1,333	1,733	2,034	2,038	2,067	2,061	2,052	4,594	14,846
Total													
BA	-3,790	2,577	-912	-171	250	695	702	1,115	1,425	1,454	1,647	-1,351	4,992
O	-3,445	-1,764	-1,298	-532	-47	411	738	1,124	1,469	1,497	1,672	-6,675	-175